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SUBJECT: GREF CONFIRMED AS SBERBANK PRESIDENT: EXODUS OF
MANAGERS RUMORED

REF: MOSCOW 5043

Classified By: Ambassador William J. Burns, Reasons 1.4 (b/d).

Summary

¶1. (U) On November 28, Sberbank's shareholders confirmed former Economic Development and Trade Minister German Gref as the bank's new President and Chairman. Gref said publicly he would work to retain key managers and provided a general overview of his plans for the bank. Outgoing chairman Andrey Kazmin and First Deputy Chairman Alla Aleshkina tendered their resignations the same day. Media reports are speculating that many key decision makers in Sberbank are planning to follow Kazmin and Aleshkina. Russian Union of Industrialists and Entrepreneurs President Aleksandr Shokhin was quoted as saying that as many as 200 of Sberbank's directors would resign during the next two months and "follow Kazmin." Although Gref's confirmation came as no surprise, the scope of the apparent dissatisfaction within the bank about his nomination was unexpected. End Summary.

Gref In, Kazmin Out...

¶2. (U) An extraordinary Sberbank shareholders' meeting on November 28 confirmed the nomination of former Economic Development and Trade Minister German Gref as the bank's new President and Chairman of the Board. The approval had been expected. The Central Bank of Russia (CBR), Sberbank's majority shareholder, put forward the nomination at a Sberbank supervisory council meeting October 16 (reftel). During the two-hour, November 28 meeting, Gref said he would work to retain the bank's key decision makers to help ease the transition. He also outlined his early priorities for building on Kazmin's success in transforming the bank. Referring to the view of Sberbank as a large, conservative bank, Gref stated that his interest was in "showing that elephants can dance." He explained that his short- to medium-term goals were to increase Sberbank's portfolio to include investment banking, expand the bank's international business, and enhance overall competitiveness.

¶3. (U) In October, the choice of Gref had prompted mixed reactions, with some observers lamenting Gref's lack of banking experience and others lauding his reform-mindedness. As soon as the nomination was approved, outgoing President and Chairman Andrey Kazmin and his First Deputy Chairman Alla Aleshkina announced their resignations. Kazmin said he

formally put forth his name for consideration as the new Russian Postal System's Director General, a competitive position to be decided by late December. (Note: Putin had already supported Prime Minister Viktor Zubkov's nomination of Kazmin as Director General two months ago. End Note.) Aleshkina did not state her post-Sberbank plans publicly, but the press speculated she would follow Kazmin to the Russian Postal System.

So, Who Else Is Leaving?

¶4. (U) Media accounts speculated that in addition to Kazmin and Alekshina, a mass resignation was expected during the next two months, which reflected a broad-based disagreement with Gref as the new Sberbank president. Many senior members of the board and mid-level operations directors reportedly timed the submission of their resignation letters to coincide with the November 28 shareholders' meeting so they would close out their final year with the bank on a "high note," according to business dailies Kommersant and Vedomosti. President of Russia's Union of Industrialists and Entrepreneurs Aleksandr Shokhin noted that "150-200 Sberbank staff--managers and directors--will leave and follow Kazmin, probably to the bank that will be established within the Russian Postal System."

Banking Sector Reaction

¶5. (C) Reports on the potential "exodus" of mid-level managers have surprised some observers. Managing Partner of the Institute for Social-Economic and Investment Projects

Leonid Baron said "although Gref enjoyed only a lukewarm reception following the Central Bank's nomination, I don't think many expected the ranks of Sberbank's directorial staff would be vacated." ING Bank Economist Tatyana Orlova commented that she understood "there was a loyalty to Kazmin, but Gref would probably rely heavily on these managers to sustain Kazmin's legacy, particularly early on." In Orlova's view, the mass resignations signaled "a mass missed opportunity."

¶6. (C) International Industrial Bank Deputy Chairman Aleksey Zlobin said that Gref's stated intentions for the bank, which Duma Property Committee Chairman Viktor Pleskachevsky echoed in comments to the press, "proved that the state plans to, and will, take a larger share of the banking sector in the intermediate term." Sberbank's size and access to resources could squeeze the private sector out of some investment banking areas, the leasing market, and possibly insurance, according to Zlobin. UralSib Bank Deputy Chairman Vladimir Ryskin said he doubted Sberbank would be as flexible as companies interested in conducting IPOs might prefer, "but that will probably change once Gref has a better understanding of the bank's capabilities."

¶7. (C) UralSib Bank First Deputy Chairman Vladimir Ryskin said the reported senior- and mid-level attrition the bank might experience by early next year raised questions about Gref's ability to assemble a management team and continue Kazmin's success. This issue, however, was beside the point: "The CBR does what it is told to do, and a couple of months ago, they were told to nominate Gref, probably by Putin. Putin's concern was not so much management of Sberbank, whose improved status he genuinely credits to Kazmin. His concern was taking care of his friend German Gref."

Comment

¶8. (C) Gref will have a short honeymoon period, given the increased global concerns and lingering aftereffects in Russia of the U.S. subprime crisis. Sberbank's ability to

weather this period will test Gref's abilities and that of his management team. If the rumored exodus of managers proves true, Gref's challenges will be even greater.

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